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K I L E M B E
COPPER COBALT LTD.



annual report
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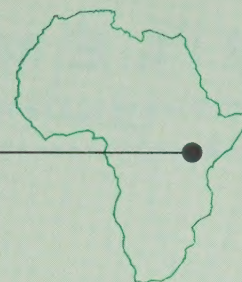


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K I L E M B E

COPPER COBALT LTD.



HEAD OFFICE

7 King Street East, Toronto, Canada

OFFICERS

G. T. N. WOODROOFFE	-	-	-	-	President
G. P. MITCHELL	-	-	-	-	Vice-President
A. C. CALLOW	-	-	-	-	Secretary
J. D. KRANE	-	-	-		Treasurer & Controller
J. F. GILLIES	-	-	-	-	Assistant-Treasurer

DIRECTORS

E. L. HEALY	JAMES HOLMES
G. P. MITCHELL	J. R. SMITH
G. T. N. WOODROOFFE	

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY	
302 Bay Street, Toronto, Ontario	393 St. James St. West Montreal, Quebec

REGISTRAR AND TRANSFER COMPANY
140 Cedar Street - - - New York 7, N.Y.

BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE
Toronto, Ontario

AUDITORS

CLARKSON, GORDON & Co., Toronto, Ontario

SOLICITORS

TILLEY, CARSON & FINDLAY - Toronto, Ontario

KILEMBE MINES

Head Office, Kilembe, Uganda
Chairman of the Board and
Managing Director - - - A. E. PUGSLEY

ANNUAL MEETING OF SHAREHOLDERS

Wednesday, April 7, 1971 at 11.00 a.m. (E.S.T.)
Toronto Room, King Edward Sheraton Hotel
Toronto, Canada

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

The Company has previously advised the shareholders that the Parliament of Uganda passed an Act entitled "The Companies (Government and Public Bodies Participation) Act 1970". This Act, which became effective April 30, 1970, provides that as from the close of business on that day the Government shall be deemed to have acquired a number of shares of a long list of companies not exceeding 60% of each class of shares issued. The name of Kilembe Mines Limited is included in the said list.

Your Company's principal asset is its share interest in Kilembe Mines Limited, a company incorporated under the laws of and with headquarters in Uganda. Before May 1, 1970 your Company held 70% of the outstanding shares of Kilembe Mines Limited, and the Uganda Government held 10%, one other shareholder holding the remaining 20%. A result of the Uganda Government's deemed acquisition, under the above mentioned Act, of an additional 50% of the issued shares, your Company's holdings were reduced to 31.1% and the holdings of the Uganda Government increased to 60%.

The Act also provides for the payment for shares deemed to have been acquired to be made on the basis of the valuation made by valuers appointed by the Government and provides that payment for the shares shall be made from the share profits received by the Government within a period not exceeding 15 years.

In July, following meetings with officials of the Uganda Government, an agreement was negotiated on terms and conditions under which the operations of Kilembe Mines Limited could be continued under the existing management.

A brief has been submitted by representatives of the Company to the Uganda Government which sets forth an evaluation of the shares of Kilembe Mines Limited it has deemed to have acquired and while several meetings have been held with officials of the Government, to date no agreement has yet been reached as to price nor condition of payment acceptable to the Company. It is expected that further meetings will be held during the first few months of 1971.

FINANCIAL

The financial statements enclosed in this report are those pertaining to Kilembe Copper Cobalt Ltd. only and are not consolidated with those of Kilembe Mines Limited. In the past the financial results for the company have been reported to you on the basis of a consolidation of the Company's earnings with those of its subsidiary. In view of the present uncertainties we believe it advisable to report to you separately the earnings of the parent company. 1970 earnings therefore include only the dividends received from Kilembe Mines Limited. 1969 earnings have been restated on an equity basis.

The notes to the financial statements set out more fully the above mentioned accounting changes.

No attempt has been made to reflect the selling price or the profit or loss (if any) on the shares acquired by the Uganda Government as negotiations are not advanced to the point where reasonable estimates of the amounts can be made.



Earnings for the year are \$2,233,458 or 58 cents per share and dividends of \$1.50 per share were paid.

DIVIDENDS

During the first nine months of 1970 the Company paid three dividend payments, of 15 cents per share each. In December a further dividend of 15 cents per share was paid, together with a special dividend of 90 cents per share.

With the announcement of the special dividend it was stated that one result of the deemed acquisition of shares of Kilembe Mines Limited by the Uganda Government under legislation enacted earlier in the year was that Kilembe Mines Limited ceased to be a subsidiary of Kilembe Copper Cobalt Ltd., its interest dropping from 70% to approximately 31%. It was therefore, considered no longer necessary for Kilembe Copper Cobalt Ltd. to maintain a cash reserve for possible emergencies or expansion plans of its former subsidiary. The directors, therefore, decided to distribute to the shareholders in the form of a special dividend the greater part of this cash reserve which had been built up out of earnings of prior years.

Future dividend payments will depend on the amount of dividend income received by your Company from Kilembe Mines Limited.

KILEMBE MINES LIMITED

Included in this Annual Report are the 1970 financial statements for Kilembe Mines Limited and comments reporting on its operations for the year.

IN TRIBUTE

The directors record with deep regret the sudden passing of Mr. J. T. McWhirter in June 1970. His valuable counsel both as a director since 1960 and Treasurer since 1968 in all matters relating to the affairs of the Company is acknowledged.

ACKNOWLEDGMENT

Your directors gratefully acknowledge their appreciation to the management and employees for the efficient services rendered during the year.

On behalf of the Board,

G. T. N. WOODROOFFE,
President.

Toronto, Ontario,
February 25, 1970.

BALANCE SHEET

(with comparative figures)

ASSETS

	1970	1969
	<u> </u>	<u> </u>
CURRENT:		(note 2)
Cash	\$ 36,903	\$ 110,725
Short-term deposits and accrued interest	763,934	4,087,154
	<u> </u>	<u> </u>
Total current assets	800,837	4,197,879
Carrying value of shares of Kilembe Mines Limited deemed to have been acquired by the Government of Uganda (note 1)	4,706,549	—
Investment in shares of Kilembe Mines Limited —		
2,955,555 shares, at cost plus equity in accumulated recorded earnings to December 31, 1969 (note 1)	3,912,709	—
6,650,000 shares, at cost plus equity in accumulated recorded earnings to December 31, 1969	—	8,803,596
	<u> </u>	<u> </u>
Total assets	<u>\$ 9,420,095</u>	<u>\$13,001,475</u>

AUDITOR

To the Shareholders of
Kilembe Copper Cobalt Ltd.:

We have examined the balance sheet of Kilembe Copper Cobalt Ltd. as at December 31, 1970 and the statements of surplus, earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As mentioned in note 1(e) to the financial statements the Directors are unable to determine an appropriate amount for the carrying value of the shares of Kilembe Mines Limited deemed to have been acquired by the Government of Uganda which is reflected in the December 31, 1970 accounts at \$4,706,549, and accordingly there
Toronto, Canada,
February 10, 1971.



DECEMBER 31, 1970

STATEMENT 1

December 31, 1969)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1970	1969
		(note 2)
CURRENT LIABILITIES:		
Accounts payable and accrued charges	\$ 6,456	\$ 5,754
SHAREHOLDERS' EQUITY:		
Capital stock —		
Authorized — 5,000,000 shares of par value of \$1 each		
Issued — 3,877,027 shares	3,877,027	3,877,027
Surplus (statement 2)	5,536,612	9,118,694
Total shareholders' equity	9,413,639	12,995,721
On behalf of the Board:		
G. T. N. Woodrooffe, Director.		
G. P. Mitchell, Director.		
Total liabilities and shareholders' equity	\$ 9,420,095	\$13,001,475

(See notes to financial statements)

REPORT

has been no accounting for any gain or loss that may ultimately be realized from this asset.

In our opinion, subject to the uncertainty concerning the carrying value of the shares of Kilembe Mines Limited deemed to have been acquired by the Government of Uganda mentioned in the previous paragraph, these financial statements present fairly the financial position of the company as at December 31, 1970 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.,
Chartered Accountants.

STATEMENT 2

STATEMENT OF SURPLUS

For the Years Ended December 31, 1970 and 1969

	Contributed surplus	Retained earnings (deficit)	Total surplus
Balance, December 31, 1968	\$8,193,887	\$ (562,027)	\$7,631,860
Earnings in 1969 (statement 3)	—	4,394,604	4,394,604
Dividends paid — \$0.75	—	(2,907,770)	(2,907,770)
Balance, December 31, 1969	8,193,887	924,807	9,118,694
Earnings in 1970 (statement 3)	—	2,233,458	2,233,458
Dividends paid — \$1.50 per share	—	(5,815,540)	(5,815,540)
Balance, December 31, 1970	<u>\$8,193,887</u>	<u>\$(2,657,275)</u>	<u>\$5,536,612</u>

STATEMENT 3

STATEMENT OF EARNINGS

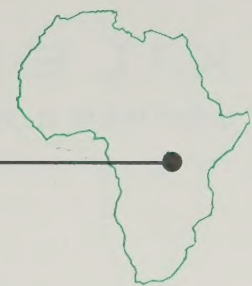
For the Year Ended December 31, 1970

(with comparative figures for the year ended December 31, 1969)

	1970	1969 (note 2)
INCOME:		
Equity in the recorded earnings of Kilembe Mines Limited for the twelve months ended December 31, 1969	—	\$4,185,354
Dividends received from Kilembe Mines Limited	\$2,197,308	—
Interest income	371,231	277,194
	<u>2,568,539</u>	<u>4,462,548</u>
General and administrative expenses	79,055	67,944
Earnings for the year before extraordinary item	<u>2,489,484</u>	<u>4,394,604</u>
EXTRAORDINARY ITEM:		
Loss on U.S. dollar deposits arising from the freeing of the Canadian dollar	256,026	—
Earnings for the year	<u>\$2,233,458</u>	<u>\$4,394,604</u>
EARNINGS PER SHARE:		
Before extraordinary item	<u>\$ 0.64</u>	<u>\$ 1.13</u>
After extraordinary item	<u>\$ 0.58</u>	<u>\$ 1.13</u>

(See notes to financial statements)

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STATEMENT 4

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended December 31, 1970

(with comparative figures for the year ended December 31, 1969)

	1970	1969
		(note 2)
FUNDS WERE RECEIVED FROM:		
Earnings for the year	\$2,233,458	\$4,394,604
Less equity in the recorded earnings of Kilembe Mines Limited, an item not involving a receipt of funds in the twelve months ended December 31, 1969	—	(4,185,354)
Add dividends from Kilembe Mines Limited, items not accounted for as earnings, but which did involve a receipt of funds in twelve months ended December 31, 1969	—	3,587,409
Funds from operations	2,233,458	3,796,659
Amounts received from Kilembe Mines Limited related to shares deemed to have been acquired by the Government of Uganda on April 30, 1970, accounted for as a reduction in the carry- ing value of shares of Kilembe Mines Limited deemed to have been acquired by the Government of Uganda	184,338	—
Total source of funds	2,417,796	3,796,659
FUNDS WERE APPLIED TO:		
Payment of dividends	5,815,540	2,907,770
(Decrease) increase in working capital in the year	(3,397,744)	888,889
Working capital at beginning of year	4,192,125	3,303,236
Working capital at end of year	\$ 794,381	\$4,192,125
REPRESENTED BY:		
Current assets	\$ 800,837	\$4,197,879
Current liabilities	6,456	5,754
	\$ 794,381	\$4,192,125

(See notes to financial statements)

NOTES TO FINANCIAL STATEMENTS

December 31, 1970

1. INVESTMENT IN KILEMBE MINES LIMITED

- (a) In May 1970 the Parliament of Uganda passed an Act entitled "The Companies (Government and Public Bodies Participation) Act" that provided as from the close of business on April 30, 1970 the Government shall be deemed to have acquired up to 60% of the shares of a long list of companies, including Kilembe Mines Limited. The Act provides for the payment for shares acquired to be made on the basis of the valuation made by valuers appointed by the Minister, and that payment for the shares shall be made from the share of profits received by the Government with an (undefined) period not exceeding 15 years from April 30, 1970.
- (b) Prior to April 30, 1970 the company held 6,650,000 shares of Kilembe Mines Limited. The carrying value of this investment of \$8,803,596 at December 31, 1969 was at cost plus the company's equity in accumulated recorded earnings calculated according to generally accepted accounting principles in Canada, including the capitalization of fixed assets acquired and the depreciation of these assets on a systematic basis (10% straight-line method). This carrying value was comprised of the cost of the investment in Kilembe Mines Limited to December 31, 1969 plus the company's share of the earnings from the date of acquisition totalling \$16,256,696 less a proportionate provision for depreciation and amortization of fixed assets (not provided for in the accounts of Kilembe Mines Limited) of \$7,453,100.
- (c) As a result of the deemed acquisition by the Government of Uganda of 3,694,445 shares of Kilembe Mines Limited from the company, Kilembe Mines Limited ceased to be a subsidiary, as the percentage of its shares owned by the company had been reduced to 31.1%. The accounting for the deemed sale to the Government of Uganda of these shares has been to apportion pro rata the carrying value of the original investment at December 31, 1969 between the remaining shares owned of Kilembe Mines Limited (\$3,912,709) and the shares sold (\$4,890,887).
- (d) Because Kilembe Mines Limited is no longer a subsidiary, the company in 1970 has taken into income only dividends received.
- (e) After April 30, 1970, with respect to the 3,694,445 shares deemed to have been acquired by the Government of Uganda, only part of the dividends declared with respect thereto have been remitted to the company as part payment on account of the purchase price. This payment has amounted to \$184,338 and has been applied against the carrying value of the shares of Kilembe Mines Limited deemed to have been acquired by the Government of Uganda to reduce it to \$4,706,549 at December 31, 1970. By order of the Government of Uganda, Kilembe Mines Limited has been prohibited from remitting any further funds to the company on account of the purchase price until agreement is reached on the price to be ascribed to the 3,694,445 shares deemed to have been sold. Dividends declared by Kilembe Mines Limited in the period from April 30 to December 31, 1970 related to the 3,694,445 shares deemed to have been sold, but not paid to the company on account of the purchase price, amount to \$390,798. In all the circumstances the Directors of the company do not believe it is possible to estimate the final selling price of the shares, and accordingly there has been no accounting for any gain or loss that may ultimately be realized.



2. COMPARATIVE FIGURES

The 1969 accounts were presented to the shareholders on a consolidated basis, as Kilembe Mines Limited was a subsidiary. Since Kilembe Mines Limited is no longer a subsidiary as a result of the deemed acquisition of 3,694,445 shares of Kilembe Mines Limited by the Government of Uganda, the 1970 accounts of necessity have been prepared on an unconsolidated basis. Although no change has been made in the company's accounting policy, the 1969 figures are also shown on an unconsolidated basis for purposes of comparison.

3. STATUTORY INFORMATION

In accordance with the requirements of Section 120B of the Canada Corporations Act as amended in 1970, the following information is reported. There were no persons who served as directors at any time in 1969 and 1970 and who received remuneration as directors. The number of persons who served as officers at any time in 1970 was 6 (5 in 1969); their aggregate remuneration as officers was \$7,500 (\$9,006 in 1969). In 1969 and 1970 three officers were also directors.

4. INCOME TAXES

The company is exempt from payment of Canadian income tax while it maintains its status as a "foreign business corporation" under the provisions of the Income Tax Act (Canada).



COMMENTS ON OPERATIONS — 1970

PRODUCTION

Mining

The mine had a record output. Ore delivered from the mine totalled 1,003,156 metric tons, an increase of 4,772 metric tons over the previous year.

Milling

Ore milled totalled 1,003,115 metric tons grading 1.91% copper compared to 979,761 metric tons of 1.93% copper in 1969.

Smelting

Blister copper production totalled 16,958 metric tons compared to 16,563 metric tons in the previous year, an increase of 2.4%.

ORE RESERVES

Ore reserves at year end are estimated as follows:

	1970			1969		
	Metric Tons	Short Tons	% Copper	Metric Tons	Short Tons	% Copper
Proved	4,455,000	4,911,000	1.88	4,145,000	4,569,000	1.89
Probable	2,089,000	2,302,000	2.26	1,307,000	1,440,000	2.07
	<u>6,544,000</u>	<u>7,213,000</u>	<u>2.00</u>	<u>5,452,000</u>	<u>6,009,000</u>	<u>1.93</u>

In addition, it is estimated there are 3,296,000 metric tons or 3,633,000 short tons of possible ore grading 1.72% copper (1969 — 2,286,000 metric tons or 2,520,000 short tons of 1.79% copper).

EXPLORATION AND DEVELOPMENT

Underground and surface drilling in all areas totalled 25,287 metres (82,962 feet) compared to 29,428 metres (96,547 feet) in the prior year.

Development work in all classes amounted to 10,719 metres (35,167 feet) compared to 12,024 metres (39,448 feet) in 1969. Progress in all phases of this work was satisfactory.

EXPENDITURES ON FIXED ASSETS

The expenditures on construction and replacement of fixed assets during 1970 which are summarized below were \$286,668 less than in the prior year:

Mining, milling and smelting equipment	\$ 669,253
Housing and amenities	486,344
General equipment and buildings	306,146
	<u>\$1,461,743</u>

EXPENDITURES IN UGANDA

Cash expenditures by Kilembe Mines Limited for operating and capital account during 1970 totalled U.£ 5,058,650 (\$14,690,320) of which expenditures in Uganda were as follows:

Wages	U.£ 1,772,600	\$ 5,147,630
Purchases from local suppliers and contractors ...	1,676,050	4,867,250
Payment to Government agencies for electricity, freight, telephone, licences, etc.	482,500	1,401,180
	<u>U.£ 3,931,150</u>	<u>\$11,416,060</u>

In addition Uganda taxes and royalty amounted to U.£ 1,038,525 (\$2,990,499).

PERSONNEL

Extensive technical programs are being continued for Ugandan trainees. Replacement for skilled operators who have left the Company has been extremely difficult and has resulted in an increasing burden on long service members of the mine staff.

BALANCE SHEET — *DECEMBER 31, 1970*

(with comparative figures for the year ended December 31, 1969)

(Expressed in Canadian Dollars)

ASSETS		
	1970	1969
CURRENT:		
Cash	\$ 185,401	\$ 1,761,526
Short term deposits	761,400	—
Metal settlements receivable	954,054	2,112,283
Accounts receivable	370,935	537,134
Advances to Uganda Development Corporation Limited	282,000	—
Copper on hand and in process	1,496,233	203,248
	<u>4,050,023</u>	<u>4,614,191</u>
FIXED:		
Mining concessions, at cost	479,778	479,778
Plant and equipment, at cost	14,807,602	14,889,225
	<u>15,287,380</u>	<u>15,369,003</u>
OTHER:		
Development and preproduction expenses, at cost	7,212,554	7,212,554
Materials and supplies, at average cost	4,369,209	3,838,860
	<u>11,581,763</u>	<u>11,051,414</u>
	<u>\$30,919,166</u>	<u>\$31,034,608</u>
LIABILITIES		
CURRENT:		
Accounts payable and accrued charges	\$ 1,494,645	\$ 1,181,927
Provision for leave pay and passages	309,582	297,951
Provision for Uganda mining royalties	161,775	370,796
Provision for Uganda income taxes	1,446,525	2,110,627
Dividends payable	502,313	—
	<u>3,914,840</u>	<u>3,961,301</u>
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized: 12,000,000 shares (6,000,000 in 1969)		
Issued: 9,500,000 shares (5,700,000 in 1969)	26,903,175	15,926,731
Capital reserve	—	10,976,444
Retained earnings	101,151	170,132
	<u>27,004,326</u>	<u>27,073,307</u>
	<u>\$30,919,166</u>	<u>\$31,034,608</u>

(See notes to financial statements)



STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Year Ended December 31, 1970

(with comparative figures for the year ended December 31, 1969)

(Expressed in Canadian Dollars)

	1970	1969
Revenue from metal production	\$24,664,703	\$26,773,536
Deduct transportation, refining and selling expenses	1,507,426	1,463,465
Net revenue from metal production	23,157,277	25,310,071
Development, mining, milling, smelting and mine office administration costs	14,324,032	13,411,593
Operating profit before undernoted items	8,833,245	11,898,478
Replacement of fixed assets	1,461,743	1,748,411
Prospecting and exploration expenses	182,873	301,528
	1,644,616	2,049,939
Operating profit	7,188,629	9,848,539
Loss on foreign exchange (note 1)	(415,524)	(12,230)
Sundry income	79,703	9,733
Profit before Uganda mining royalties, copper export taxes and income taxes	6,852,808	9,846,042
Provision for Uganda mining royalties, copper export taxes and income taxes	2,990,499	4,013,837
Earnings for the year	3,862,309	5,832,205
Retained earnings, beginning of year	170,132	10,439,241
	4,032,441	16,271,446
Less: Capital reserve (note 5)	—	10,976,444
	4,032,441	5,295,002
Deduct dividends paid	3,931,290	5,124,870
Retained earnings, end of year	\$ 101,151	\$ 170,132

(See notes to financial statements)

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

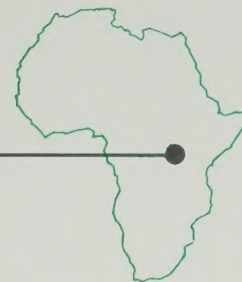
For the Year Ended December 31, 1970

(with comparative figures for the year ended December 31, 1969)

(Expressed in Canadian Dollars)

	1970	1969
FUNDS WERE PROVIDED BY:		
Earnings for the year	\$3,862,309	\$5,832,205
Disposal of fixed assets (net)	81,623	50,422
	<u>3,943,932</u>	<u>5,882,627</u>
FUNDS WERE APPLIED TO:		
Payment of dividends	3,931,290	5,124,870
Increase (decrease) in inventory of materials and supplies	530,349	(191,452)
	<u>4,461,639</u>	<u>4,933,418</u>
(Decrease) increase in working capital in the year	(517,707)	949,209
Working capital, beginning of year	652,890	(296,319)
Working capital, end of year	<u>\$ 135,183</u>	<u>\$ 652,890</u>
Represented by:		
Current assets	\$4,050,023	\$4,614,191
Current liabilities	3,914,840	3,961,301
	<u>\$ 135,183</u>	<u>\$ 652,890</u>

(See notes to financial statements)



NOTES TO FINANCIAL STATEMENTS

1. CONVERSION OF FUNDS

Most of the income of Kilembe Mines Limited has been received in U.S. dollars and the expenditures have been incurred in pounds sterling or in Uganda currency. Assets and liabilities and revenues and expenses in currencies other than Canadian dollars are translated into Canadian funds on the following basis:

Fixed assets, development and preproduction expenses and share capital	At the rates of exchange prevailing when the transactions giving rise to such items occurred.
Other assets and liabilities	At the closing rates of exchange prevailing at the end of the year.
Revenues and expenses	At the average of monthly rates of exchange in effect during the year.

The conversion of Uganda shillings to Canadian dollars has given rise to the item "Loss on foreign exchange" in the earnings statement, and amounted to a charge against earnings of \$415,524 in 1970 and \$12,230 in 1969.

2. INVENTORY OF COPPER

Copper on hand and in process consists of copper concentrates in process of production between the mill and the completion of the smelter operation. Inventories of copper concentrates are priced at the lower of cost or estimated realizable value, the latter based on the delivered price of refined copper less transportation, refining, selling and smelting costs. Blister copper produced by the smelter is sold under contract, and is recorded as produced in "metal settlements receivable" at estimated realizable value.

3. DEPRECIATION AND AMORTIZATION

It is the company's practice to charge replacements of fixed assets to earnings and not to depreciate or amortize fixed assets or development and preproduction expenditures previously set up.

4. UGANDA MINING ROYALTIES, COPPER EXPORT TAXES AND INCOME TAXES

The provision for Uganda mining royalties, copper export taxes and income taxes consists of:

	1970	1969
Provision for mining royalties	\$ 166,594	\$ 368,832
Provision for copper export taxes	1,436,356	1,870,095
Provision for income taxes	1,387,549	1,774,910
	<u>\$2,990,499</u>	<u>\$4,013,837</u>

5. CAPITAL RESERVE

During 1969 accumulated depreciation and amortization of preproduction expenses was written back in the accounts and a "capital reserve" was created. During 1970 the "capital reserve" was capitalized and additional shares were authorized and capital stock was issued to the extent of this item.



